

Overview of some of the key provisions of the
American Recovery and Reinvestment Act of 2009
affecting individual taxpayers

Tax Benefits, Credits, and Other Information

Who says you can't get a break these days? The
American Recovery and Reinvestment Act
may give you the break you are looking for...

Catch a Break



American Recovery and Reinvestment Act of 2009

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA), was signed into law. ARRA includes key provisions that impact individuals and families. The bulk of the tax provisions affect tax year 2009 — individual tax returns due April 15, 2010 and tax year 2010 — individual tax returns due April 15, 2011.

The IRS continues to work diligently to implement the various tax-related provisions of ARRA as quickly as possible. As soon as guidance becomes available, it is being posted on [IRS.gov](http://www.irs.gov).

The following is an overview of some of the key ARRA provisions affecting individual taxpayers. Many of the IRS Forms and Publications referenced below as additional resources are under revision due to the new tax law provisions. They are scheduled for release prior to the 2010 Filing Season. Publication 553, *Highlights of Tax Changes*, and [IRS.gov](http://www.irs.gov) should be used for additional information until the other Forms and Publications are available with the ARRA information.

Making Work Pay Tax Credit

For 2009 and 2010, the Making Work Pay provision of ARRA will provide a refundable tax credit of up to \$400 for working individuals and \$800 for married taxpayers filing joint returns. This tax credit is calculated at a rate of 6.2 percent of earned income and will phase out for taxpayers with modified adjusted gross income in excess of \$75,000 or \$150,000 for married couples filing jointly. The credit is available to both employees and self-employed individuals. To be eligible for the credit, taxpayers must have a valid Social Security Number (SSN). In the case of a joint filer, a valid SSN is required for one of the taxpayers. Taxpayers who can be claimed as a dependent on someone else's tax return and nonresident aliens are **NOT** eligible for the credit.

Most wage earners will benefit immediately with a larger paycheck as a result of the changes made to the federal income tax withholding tables to implement the Making Work Pay tax credit. However, the amount of the credit still must be claimed on the individual's 2009 and 2010 income tax returns. Taxpayers who do not have taxes withheld by an employer during the year can claim the credit on their tax return.

Caution: Employees do not have to submit a Form W-4, *Employee Withholding Certificate*, to get the automatic withholding change. However, some people may find that the changes built into the withholding tables result in less tax being withheld than they prefer.

These include:

- Taxpayers who are not eligible for the Making Work Pay tax credit,
- Taxpayers who have more than one job, or
- Married couples whose combined income place them in a high tax bracket.

To avoid under withholding, these employees may claim fewer withholding allowances on Form W-4 or request an additional amount to be withheld. For additional help, employees can obtain Publication 919, *How Do I Adjust My Tax Withholding?*, or visit the IRS Web site at www.irs.gov and use the "Withholding Calculator".

Optional Withholding Adjustment Procedures for Pension Plans: Pension recipients are not eligible for the Making Work Pay credit unless they have earned income. Because the new withholding tables incorporate the benefits of the Making Work Pay tax credit, they reduce the taxes withheld from all taxpayers, including pension recipients. Therefore, pension recipients may not have enough tax withheld from their pension benefits to cover their tax liability on those payments.

To help minimize this potential result, on May 14, 2009, the IRS released new optional adjustment procedures for pension plans that will make withholding more accurate for some pension recipients. The optional adjustment procedure, which may be used by those paying pensions is outlined in Notice 1036-P, *Additional Withholding for Pensions for 2009*.

Pension payers are not required to use this new procedure and may continue to use only the new withholding tables. Therefore, it is recommended that pension recipients evaluate their expected tax liability for the year and consider whether they need to make estimated tax payments or adjust their withholding on Form W-4P, *Withholding Certificate for Pension or Annuity Payments*.

Economic Recovery Payment

The Economic Recovery Payment is a one-time payment in 2009 of \$250. It will be paid to recipients of certain benefits administered by the Social Security Administration, Department of Veterans Affairs, and Railroad Retirement Board. Individuals **DO NOT** have to file a tax return to get this payment. This payment is not included in taxable income, but it reduces any Making Work Pay tax credit.

The IRS does not make this payment. Individuals who may qualify for the economic recovery payment should contact their respective agency for more information.

Special Credit for Certain Government Retirees

A one-time refundable credit of \$250 is available in 2009 for certain government retirees who receive a pension from work and are not covered by Social Security. This one-time credit is taken on the 2009 return filed in 2010 and is a reduction to any Making Work Pay tax credit.

For more information, see Publication 553, *Highlights of Tax Changes*.

First-time Homebuyer Credit Amended

This ARRA provision extends the existing homebuyer credit for qualifying home purchases to purchases before December 1, 2009. For purchases in 2009, taxpayers can qualify for a refundable credit of 10 percent of the purchase price up to \$8,000 (\$4,000 for taxpayers who are married filing separately). Generally, you do not have to repay the credit for qualifying home purchases after December 31, 2008, and before December 1, 2009, provided the home remains your main home for 36 months after the purchase date.

The amount of the credit begins to phase out for taxpayers whose modified adjusted gross income is more than \$75,000 or \$150,000 for taxpayers who are married and file a joint return. For purposes of the credit, you are considered to be a first-time homebuyer if you, or your spouse if you are married, did not own any other main home during the three-year period ending on the date of purchase.

Important Note for 2008 Tax Returns: For qualified home purchases after December 31, 2008, and before December 1, 2009, taxpayers can elect to take the credit on their 2008 tax return. Homes purchased on or after April 9, 2008, and before January 1, 2009, continue to be governed by the original first-time homebuyer credit enacted for tax year 2008. The 2008 law includes the repayment requirement and is limited to \$7,500.

Form 5405, *First-time Homebuyer Credit*, is used to claim the credit. The instructions for the Form 5405 provide additional information on who can and cannot claim the credit, income limitations, and repayment of the credit.

For additional information see Publication 530, *Tax Information for First-Time Homeowners*.



Special Tax Break for Purchase of a New Vehicle

For 2009, there is an additional deduction for state and local sales and excise tax, including certain fees in states that do not have a sales tax, on the purchase of qualified motor vehicles. A qualified motor vehicle must be new and includes a passenger automobile or light truck, a motorcycle, or a motor home. **Taxes and fees paid on vehicles purchased before February 17, 2009, are not eligible for this special deduction.**

The deduction is limited to the eligible taxes and fees paid on the first \$49,500 of the purchase price of the vehicle. The deduction phases out for taxpayers with modified adjusted gross income of more than \$125,000 (\$250,000 on a joint return). The deduction is available to taxpayers who claim the standard deduction as well as to taxpayers who itemize deductions on Schedule A (Form 1040), *Itemized Deductions*.

For more information, see Publication 553, *ale ceiuclt.deha.me*

Temporary Suspension of Tax on Portion of Unemployment Benefits

For tax year 2009, each taxpayer can exclude from gross income up to \$2,400 of unemployment compensation. Unemployment compensation over \$2,400 is subject to federal income tax. Individuals who receive unemployment benefits in 2009 should check their withholding to ensure they are not having unnecessary tax withheld.

For more information, see Publication 553, *Highlights of Tax Changes*.

COBRA Health Insurance Continuation Premium Subsidy

Workers who have lost their jobs may qualify for a 65 percent subsidy for Consolidated Omnibus Budget Reconciliation Act (COBRA) continuation premiums for themselves and their families for up to nine months. Eligible workers will have to pay 35 percent of the premium to their former employers.



To qualify, a worker must have been involuntarily separated between September 1, 2008, and December 31, 2009.

This subsidy phases out for individuals whose modified adjusted gross income exceeds \$125,000 or \$250,000 for individuals who are married and file joint returns. Taxpayers with modified adjusted gross income exceeding \$145,000, or \$290,000 for those filing joint returns, do not qualify for the subsidy.

More information on the COBRA subsidy is available from the U.S. Department of Labor.

American Opportunity Tax Credit

For tax years 2009 and 2010, the American Opportunity Tax Credit makes temporary changes to the education credit known as the Hope Credit. It adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four years of post-secondary education instead of two. In addition, a portion of the credit may be refundable.

For more information, see Publication 970, *Tax Benefits for Education*, and Form 8863, *Education Credits*.



Qualified Higher Education Expense (Sec 529 Accounts)

For tax years 2009 and 2010, the definition of qualified higher education expenses for tax-free distributions from a qualified tuition program is expanded to include the purchase of computer technology, equipment, or Internet access and related services.

For more information, including restrictions, see Publication 970, *Tax Benefits for Education*.

Residential Energy Credits

ARRA provides numerous tax incentives for individuals to invest in energy-efficient products.

Extension and modification of credit for nonbusiness energy property: The new law reinstates and increases the tax credit for homeowners who make energy efficient improvements to their existing homes. The law increases the credit rate to 30 percent of the cost of all qualifying improvements and raises the maximum credit limit to \$1,500 for improvements placed in service in 2009 and 2010.

The credit applies to improvements such as adding insulation, energy efficient exterior windows, and energy-efficient heating and air conditioning systems. Generally, homeowners can rely on manufacturers' certifications in determining whether property purchased qualifies for the credit.

Modification of credit for residential energy efficient property: This nonrefundable energy tax credit will help individual taxpayers pay for qualified residential energy efficient property, such as solar hot water heaters, geothermal heat pumps, and wind turbines. The new law removes most of the previously imposed maximum amounts and maintains the 30 percent credit for the purchase of qualified property.

For more information, see Publication 553, *Highlights of Tax Changes*, and Form 5695, *Residential Energy Credits*.

FOR ADDITIONAL INFORMATION

All of the following forms and publications can be found on the Internal Revenue Service Internet site www.irs.gov.

For a free paper copy of any listed form or publication, please call **1-800-829-3676 (1-800-TAX-FORM)**.

For questions about the tax benefits included in the new economic recovery legislation, please call **1-800-829-1040** or visit www.irs.gov/recovery.

Forms and Publications that may be of assistance:

- Form W-4, *Employee Withholding Certificate*
- Form W-4P, *Withholding Certificate for Pension or Annuity Payments*
- Form 5405, *First-time Homebuyer Credit*
- Form 5695, *Residential Energy Credits*
- Form 8812, *Additional Child Tax Credit*
- Form 8863, *Education Credits*
- Schedule EIC, *Earned Income Credit (Qualifying Child Information)*
- Publication 525, *Taxable and Nontaxable Income*
- Publication 530, *Tax Information for First-Time Homeowners*
- Publication 553, *Highlights of Tax Changes*
- Publication 596, *Earned Income Credit (EIC)*
- Publication 919, *How Do I Adjust My Tax Withholding?*
- Publication 970, *Tax Benefits for Education*
- Publication 972, *Child Tax Credit*

FREE TAX RETURN ASSISTANCE

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites offer free tax return preparation to individuals having low to moderate income. To find free tax help near you, call IRS at **1-800-906-9887** or AARP TaxAide at **1-888-227-7669**.



This booklet is intended to inform individual taxpayers about some of the tax benefits available to qualifying taxpayers as a result of the new economic recovery legislation.

